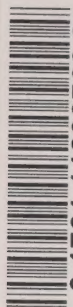


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ONTARIO NORTHLAND MOVING FORWARD

ANNUAL REPORT





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ONTARIO NORTHLAND MOVING FORWARD











## MESSAGE FROM THE COMMISSION CHAIR

Ontario Northland plays a very important role in the economy of Northern Ontario and in the everyday lives of the hundreds of thousands of people who live here. As an "arm's length" agency of the Provincial government, Ontario Northland provides the North with vital transportation and telecommunications infrastructure.

Starting with the construction of a railway line that eventually reached Moosonee, one can imagine the countless challenges the company has had to overcome throughout its 96-year history. I believe Ontario Northland is now facing one of its most pressing challenges ever as we shift to a more competitive business culture and become less reliant on government funding.

One does not have to look very hard to find examples that demonstrate exactly how Ontario Northland is "Moving Forward." For instance: O.N.Rail's early involvement with customer Agrium Inc. resulted in the construction of a 27-km spur line to service the company's mine near Kapuskasing; Marine Services is turning its Chi-Cheemaun ferry operation around by changing its entire product focus from a "transportation link" to a "tourism experience."

Our bottom line shows progress in Ontario Northland's commitment to reducing operating expenditures with a 7 per cent improvement over 1997. However, three large one-time writedowns of equipment and real estate brought our net loss for 1998 to \$20.3 million. Despite this result, we remain committed to achieving our goal of financial self-sustainability.

On behalf of my fellow commissioners, I would like to thank the employees of Ontario Northland for their many contributions in making sure that our company is "Moving Forward."

R. Grant, Chair



## PRESIDENT'S REPORT



K. J. Wallace, President and CEO

TO REFLECT OUR COMPANY'S  
STATE OF BEING, THE THEME OF  
LAST YEAR'S ANNUAL REPORT  
WAS "CHANGING DIRECTIONS."  
THIS YEAR, AFTER CHARTING A  
NEW COURSE FOR ONTARIO  
NORTHLAND'S FUTURE, WE ARE  
ADAPTING TO A CHANGING  
MARKETPLACE. THAT'S WHY WE  
HAVE CHOSEN "MOVING  
FORWARD" AS THE THEME FOR  
OUR 1998 ANNUAL REPORT.



Despite uncertainties affecting Ontario Northland's operations, we have a plan to return our company to profitability by 2002. We believe 1998 will be remembered as the year in which we began our journey in a new direction for the Company. Ontario Northland is indeed "Moving Forward."

## A CHANGING BUSINESS ENVIRONMENT

Increased competition, significantly reduced funding from the Provincial Government, and a number of other economic factors, have created a new marketplace reality for Ontario Northland. No longer will we operate as a monopolistic utility. We will need to face competition head on.

This is especially true for O.N.Tel. In September, the Canadian Radio-television and Telecommunications Commission (CRTC) announced a framework for the implementation of long-distance telephone competition in Northern Ontario as early as July 1, 2000. While the CRTC is examining the issues that must be dealt with in the transition to a competitive environment, including the appropriate means to provide quality telecommunications to remote and urban areas, O.N.Tel has also been preparing to meet the new challenges during 1998.

On the transportation front, the Federal Government has announced its intention to deregulate the Canadian bus industry by January 1, 2000. Under deregulation, Ontario Northland's Bus Services department will face competition from small, low-cost, regional carriers on its commercially viable routes. In anticipation of this, and as part of our overall plan to lower costs and increase efficiency, in 1998, Bus Services reduced frequencies on certain routes that were insufficiently supported by customers.

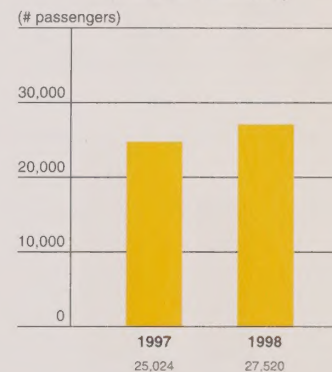
O.N.Rail, which of course has faced competitive pressure from the trucking industry for some time, is now experiencing competition from shortline rail companies who enjoy low labour and operating costs. In 1998, we worked to reduce those competitive pressures by reducing operating costs and searching for new sources of revenue. Lumber traffic increased by 38 per cent in 1998 and has increased 75 per cent since 1994.

## DOING MORE WITH LESS

As is the case with most private sector corporations and public sector enterprises, Ontario Northland has had to focus on its ability to "do more with less" over the past few years. Our various departments have done a commendable job in cutting costs and



**Passenger Services  
Little Bear Train Ridership**  
(Cochrane – Moosonee)







increasing efficiencies and revenues. We believe we have met the challenges issued to us by successive provincial governments. In 1998, our efforts to contain costs and increase revenues and efficiencies continued on several fronts with the acknowledgment that there are still many challenges ahead.

## PLANNING FOR SUCCESS

A significant factor in many of Ontario Northland's successes over the past several years is our commitment to make business planning a bigger part of what we do. Our five-year business plan for 1999-2003 was facilitated by Corporate Services in 1998 with each department contributing its own plan.

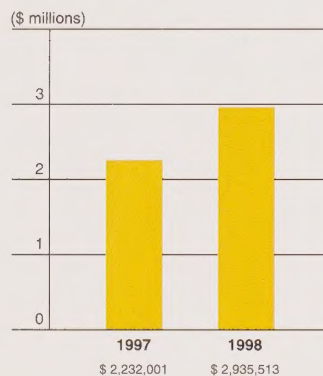
## DEVELOPING NEW BUSINESS OPPORTUNITIES

Some of the more exciting business developments in 1998 were the many new opportunities facing Ontario Northland. Each opportunity is in a different stage of development and all of them are extremely promising in terms of their future impact on the company's profitability.

Agrium Inc., a company that owns a major phosphate deposit near Kapuskasing, announced in 1997 its plans to immediately begin developing the property, with operations scheduled to begin in July, 1999. O.N.Rail's early involvement in this new business opportunity will pay dividends with projected revenue in excess of \$100 million over the project's 20-year life span. Ontario Northland is building a 27-km spur line to directly service the mine, allowing for a total rail-based transportation solution.

O.N.Rail's Mechanical Department continued its efforts to bring outside contract work into our maintenance shops, posting a 32 per cent increase over the past two years. The department worked toward achieving certification by the Association of American Railways that will enable Ontario Northland to perform maintenance and repair work for rail companies in Canada and the United States.

**O.N.Rail**  
Mechanical Department Revenues





O.N.Rail's Road Maintenance department also generated significant increases in contract revenue.

In keeping with its commitment to stay abreast of new technology, O.N.Tel successfully launched ATM (Asynchronous Transfer Mode), a high-speed telecommunications networking product that sends voice, data and video over a single connection.

ONLink, Ontario Northland's Internet service provider, continued its aggressive expansion plans, introducing service to five communities in 1998.

## IMPROVING SAFETY

One of our most substantial achievements in 1998 was the improvement made in making Ontario Northland a safer place for our customers, employees and the public at large. An improved safety record was identified as a goal in 1996 and we have made impressive progress in this area. Compared to 1996, lost-time injuries were reduced by 54 per cent while lost days declined 59 per cent. Total injuries for 1998 were down 20 per cent over 1997. Of course, we will continue to work at improving our safety record in the coming years.

Following 18 months of preparation, the Marine Services Administration Office received its Document of Compliance with the International

Safety Management Code. The M.S. Chi-Cheemaun and M.V. Jiimaan received Safety Management Certificates under the same program.

**“Our Modern Safety Management program is already showing impressive results with a 54 per cent reduction in lost-time injuries since 1996.”**

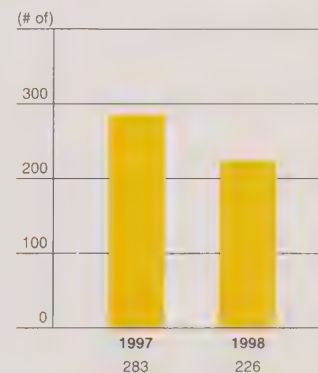
## FORMING ALLIANCES

The development of business partnerships contributes to positioning Ontario Northland as the North's leader in transportation and telecommunications services. In 1998, O.N.Tel established relationships with Cisco Systems Canada and Lucent Technologies, adding to an already strong business partnership with IBM Canada.

Passenger Services worked in partnership with the private sector during 1998 by assisting in the provision of air service to Northern Ontario communities. The department also plays an active

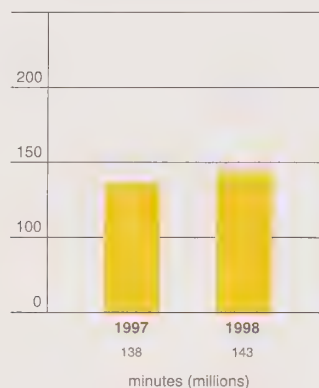


**Safety**  
# of Lost-Time Injuries





**O.N.Tel Long-Distance**  
Originating Minutes



role in the Canadian Bus Association's initiative to monitor and influence the Federal Government's deregulation plans for the industry.

The Agrium mine project, announced in 1997, is another example of how alliances with major customers can positively impact our bottom line. Ontario Northland has also been working closely with its private sector partners on the Rail Cycle North project to move solid waste from the Greater Toronto Area and other communities in the south to the Adams Mine Site. This project received conditional approval under the Environmental Assessment Act in 1998 and could be operational by 2002, generating an estimated \$7.0 million of revenue annually to Ontario Northland over the life of the project.

Joint marketing initiatives with tourism associations on Manitoulin Island and the Bruce Peninsula have produced positive results for the Company, and contributed to increased ridership on the Chi-Cheemaun in 1998.

## WORKING FOR GROWTH AND DEVELOPMENT IN THE NORTH

As a development agency of the Provincial Government, Ontario Northland's mission is to ensure that Northern Ontario's transportation and telecommunications infrastructure can support the

growth and development needs of the communities and people of the North. Despite the many challenges presented by a rapidly changing business environment, Ontario Northland continued to make progress on behalf of the North. This was recognized, for example, during the public proceedings conducted by the CRTC, in Timmins, in June 1998, regarding O.N.Tel's positive record of providing services to remote/high-cost areas.

In 1998, we continued to act as a catalyst for growth and development as evidenced by a number of projects, including extensive track maintenance work on the Island Falls Subdivision between Cochrane and Moosonee and the replacement of the last remaining timber trestle bridge on the O.N.Rail system. The 186-mile subdivision is vital to the communities of Moosonee and Moose Factory as their only land-based link to the "outside world."

As advanced telecommunications technology continued its northward expansion in 1998, O.N.Tel worked with First Nations Energy Inc. on a proposal to provide fibre optics service to aboriginal communities along the James Bay coast.

## FOCUSING ON THE CUSTOMER

The onset of competition in Ontario Northland's business environment is driving a critical need to





change the way we do business on every level, in every department of the company. Our job in the coming years is to become a customer focused organization.

Over the past year we have made significant improvements in this regard. For example, our subsidiary, Owen Sound Transportation Company (OSTC), has been able to reverse a declining ridership trend on the Chi-Cheemaun over the past three years. The Chi-Cheemaun, a 638-passenger/135-vehicle ferry, sails between Tobermory on the Bruce Peninsula and South Baymouth on Manitoulin Island. Charters and other special sailings, combined with new shore-side activities and on-board amenities, paid off in 1998 with a 14 per cent increase in ridership over 1997. The Chi-Cheemaun is now focusing more on

customers by becoming a tourism destination and experience.

Despite the high costs in providing long distance service in the Northern Ontario market, our telecommunications division, O.N.Tel, offered a series of special promotions in 1998 that proved extremely popular with our customers... a clear example of how Ontario Northland is becoming more customer focused.

Another way we are becoming more customer focused is our renewed effort to improve the level of service we provide. All Passenger Services customer contact employees and managers received SuperHost training, an internationally recognized customer service training program.

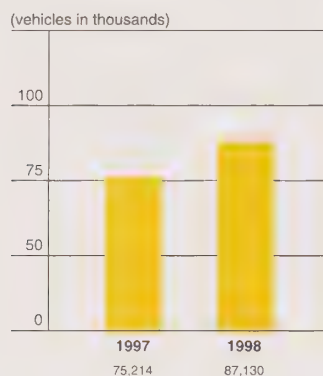
## GETTING INVOLVED IN OUR COMMUNITIES

Ontario Northland is truly fortunate to count among its employees a very large number of individuals who get involved in their communities by donating precious time to many important causes in Northern Ontario. This tremendous level of involvement is a measure of dedication and commitment the people of Ontario Northland hold for the North. The large majority of this volunteer work is not conducted under the Ontario Northland banner, yet just the same, we would like to say how proud we are of



### Marine Services

Vehicle Traffic



their contributions. Their hard work does not go unnoticed. At the same time, ONTC and its divisions have promoted their services through various sponsorships and involvement in community activities, enhancing its image as a good corporate citizen throughout its operating territory.

### GETTING READY FOR THE YEAR 2000

Ontario Northland has been addressing this substantial issue through its corporate Y2K committee and a three-stage process for identifying, testing and auditing our equipment and systems. Of the 46 individual computer systems in our company,

31 have been either certified or converted to be Y2K ready by December 31, 1998. Our deadline to ensure all remaining applications will be converted is April 30, 1999.

### IMPROVING THE WAY WE DO BUSINESS

In January, we introduced Performance Management, a business system designed to improve the overall management of our Company. Our objective for this program is to bring the management of Ontario Northland to its highest level through goal setting and continuous improvement.

### IMPROVING THE LABOUR-MANAGEMENT RELATIONSHIP

Ontario Northland reached an important milestone in labour-management relations with a historic summit where representatives from both labour and management met to discuss ways to improve their relationship. The key outcome of the meeting, the first of its kind in the 96-year history of Ontario Northland, was a mutual recognition that new approaches which will allow both sides to resolve differences and work together on achieving success in a rapidly changing business environment are needed and should be examined.





## CORPORATE SERVICES

Corporate Services is the administrative centre of Ontario Northland, providing a wide variety of essential services to the entire Company and in some cases, the general public. These services include finance, human resources, information technology support, planning and development, public affairs and corporate marketing, purchasing, legal, and security.

Corporate Services is committed to providing high quality, cost effective and dependable services to its customers.

### 1998 HIGHLIGHTS

- Improvement in lost-time injuries of 54 per cent over benchmark year of 1996
- First full year of Performance Management System
- Y2K compliance program
- Labour-Management Summit
- \$1.3 million in real estate assets sold

## O.N. RAIL

O.N.Rail is engaged in the transportation of mineral and forestry products, as well as chemicals, petroleum and other products to and from northeastern Ontario and northwestern Quebec. The 700-mile rail system connects to CN and CP at North Bay, CN at Rouyn-Noranda and ACRI at Hearst.

The shops in North Bay perform a variety of contract work for external customers, including rolling stock rebuilds, repairs, and overhauls.

### 1998 HIGHLIGHTS

- Lumber revenue up 57 per cent
- Lumber cars in operation increased from 55 in 1996 to 205 in 1998
- Construction began on the 27-km spurline to the Agrium Inc. phosphate mine near Kapuskasing
- Contract Rail Shop received Association of American Railroads Certification

- Contract Shop revenue up 31.5 per cent
- Rail Cycle North, a project to transport solid waste from southern Ontario to former mine site near Kirkland Lake, receives conditional approval from Environmental Assessment Board
- Three-year labour agreement with equipment shop workers
- Agreement to purchase six new locomotives (delivery in 1999)
- Track maintenance project on Island Falls Subdivision (Moosonee line), including replacement of last wooden railway trestle

## PASSENGER SERVICES

Rail Passenger Services operates passenger trains between Toronto and Moosonee. The Northlander operates between Cochrane and Toronto with bus connections to/from Hearst and Timmins. The Polar Bear Express is a popular rail excursion that runs between Cochrane and Moosonee during the summer months. The Little Bear, one of Canada's last remaining "flag stop" trains, is a mixed freight/passenger train operating on the same route.

The Station Inn is a full-service hotel and restaurant, popular for tourists in the summer and winter.

Bus Services operates a fleet of 26 motor coaches, providing scheduled bus service between Toronto and northeastern Ontario. Charter and tour services are provided throughout North America. Bus Parcel Express is a shipping/courier service that is handled through scheduled bus routes.

### 1998 HIGHLIGHTS

- Completed customer service training for all "customer contact employees"
- Purchased three new motor coaches, with increased capacity for passengers
- Completed upgrades to Cochrane Station Inn
- Participated with private sector interests in pilot project to transport snowmobiles and riders from southern Ontario to Cochrane
- Introduced "Interest-Based Negotiations" with motor coach operators
- Developed fleet utilization plan for motor coaches and reduced service on under-performing routes and undertook extensive operational review of bus services in anticipation of deregulation



- Continued increase in ridership on Little Bear passenger train
- Signed voluntary code of practice in serving persons with disabilities
- Continued lobby efforts in federal deregulation of bus industry
- Introduced in-house driver training program
- Administered Air Services Contracts for provision of air service in Northern Ontario communities

## O.N.TEL / I.T. SOLUTIONS

Serving a population of 150,000 people and covering a 200,000 square kilometre area, O.N.Tel is an interexchange telecommunications carrier in northeastern Ontario.

O.N.Tel provides a full range of long distance services and also delivers CBC programming (video) services to northeastern Ontario.

O.N.Tel provides local telephone service in Moosonee, Moose Factory, Temagami and Marten River.

I.T. Solutions markets a complete range of data communications and networking products and services, offering customers total system solutions.

A strategic business alliance with IBM enables I.T. Solutions to support a wide range of computer hardware and software applications, as well as information technology consulting.

ONLink, O.N.Tel's highly successful Internet service provider, offers a full range of services in more than 85 communities throughout Northern Ontario.

I.T. Solutions delivers private mobile service primarily for large utilities.

## 1998 HIGHLIGHTS

- CRTC announced regulatory framework for implementation of competition in long-distance telephone market
- Prepared for introduction of long distance competition
- Launched ATM (Asynchronous Transfer Mode) service
- Implemented promotional strategy to provide savings for long-distance customers
- Introduced Internet access to five communities

- Developed strategic alliances with Cisco Systems Canada and Lucent Technologies
- Established new business development unit
- Increased profile of O.N.Tel in various communities through employee volunteer efforts
- Continued infrastructure development projects

## MARINE SERVICES

Marine Services are provided by Ontario Northland under the name Owen Sound Transportation Company (OSTC). OSTC operates provincially mandated ferry services between Tobermory on the Bruce Peninsula and South Baymouth on Manitoulin Island (Chi-Cheemaun).

The Manitou Island II provides provincially mandated barge ferry service between Moosonee and Moose Factory Island.

OSTC also provides ferry service on behalf of the Ontario Ministry of Transportation, connecting Kingsville and Leamington, Ontario with Pelee Island and Sandusky, Ohio using the M.V. Jiimaan and the M.V. Pelee Islander.

## 1998 HIGHLIGHTS

- Received International Safety Management Code certification
- Traffic up 14 per cent on the Chi-Cheemaun
- Opened gift store in the shore-side terminal at Tobermory
- Sold out Chi-Cheemaun dinner cruises
- Chi-Cheemaun installed Electronic Chart Precision Information Navigation System, a satellite feed with radar and Differential GPS and electronic charts (also put a repeater monitor on board, so passengers could follow the ship's course)
- Introduced charters on the Chi-Cheemaun and held the Ontario Chamber of Commerce 1998 Annual General Meeting on board
- Increased partnership activities, including cooperative marketing with Native organizations on Manitoulin Island
- Received radio licence for short-band broadcasting of ferry information over a one (1) kilometre radius





## Auditor's Report

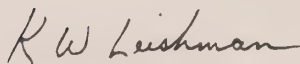
Ontario Northland Transportation Commission  
and to the Minister of Northern Development and Mines

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I have audited the consolidated balance sheet of Ontario Northland Transportation Commission as at December 31, 1998 and the consolidated statements of operations and retained earnings, contributed surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



K.W. Leishman, CA  
Assistant Provincial Auditor

Toronto, Ontario  
April 2, 1999

## Consolidated Balance Sheet

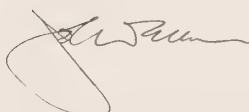
(dollars in thousands)

December 31	1998	(Note 19) 1997
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable	\$ 18,558	\$ 15,386
Inventory	11,017	8,855
Prepaid expenses	526	288
	<b>30,101</b>	<b>24,529</b>
<b>Self-Insurance Fund (Note 1)</b>		
- Market value \$4,557; (1997 - \$4,350)	4,333	4,052
<b>Long-term receivables (Note 17)</b>	<b>2,864</b>	<b>3,514</b>
<b>Investment in Capital Assets (Schedule 1) (Note 13)</b>	<b>217,048</b>	<b>228,473</b>
<b>Deferred Pension Charge (Note 3)</b>	<b>13,252</b>	<b>8,100</b>
	<b>\$ 267,598</b>	<b>\$ 268,668</b>
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Bank loans and overdrafts (Note 2)	\$ 5,574	\$ 1,609
Accounts payable and accrued charges	13,503	11,331
Deferred revenue	164	342
Current portion of long-term debt (Note 4)	315	-
	<b>19,556</b>	<b>13,282</b>
<b>Provision for Self-Insurance (Note 1)</b>	<b>4,333</b>	<b>4,052</b>
<b>Long-Term Debt (Note 4)</b>	<b>48,537</b>	<b>35,208</b>
	<b>52,870</b>	<b>39,260</b>
<b>Contingencies (Note 12)</b>		
<b>Province of Ontario Equity</b>		
Contributed surplus	24,000	24,614
Retained earnings	171,172	191,512
	<b>195,172</b>	<b>216,126</b>
	<b>\$ 267,598</b>	<b>\$ 268,668</b>

Approved on behalf of the Commission:



R. Grant, Chair



K. J. Wallace, President and CEO



**Consolidated Statement of  
Operations and Retained Earnings**

(dollars in thousands)

For the year ended December 31	1998	(Note 19) 1997
<b>Operating Revenues</b> (Schedule 2)	<b>\$ 129,499</b>	<b>\$ 136,132</b>
<b>Operating Expenses</b> (Schedule 2)	<b>118,897</b>	<b>127,863</b>
<b>Operating Income</b>	<b>10,602</b>	<b>8,269</b>
<b>Other Expenses</b>		
Amortization (Schedule 2)	12,081	10,731
Retirement incentive (Note 5)	-	225
Unusual items (Note 8)	19,706	-
Regulatory approval (Note 9)	-	403
Investment and other income	(77)	(443)
Interest expense (Schedule 2)	372	36
Gain on sale of capital assets (Schedule 2)	(1,140)	(872)
	<b>30,942</b>	<b>10,080</b>
<b>Net Loss for the year</b>	<b>(20,340)</b>	<b>(1,811)</b>
<b>Retained Earnings, beginning of year</b>	<b>191,512</b>	<b>193,323</b>
<b>Retained Earnings, end of year</b>	<b>\$ 171,172</b>	<b>\$ 191,512</b>

# Consolidated Statement of Contributed Surplus

(dollars in thousands)

For the year ended December 31		1998	(Note 19) 1997
<b>Balance</b> , beginning of year	\$	<b>24,614</b>	\$ 13,058
<b>Add:</b> Contributions from the Province of Ontario (Note 11)		-	12,347
<b>Less:</b> Amortization		<b>614</b>	655
Retirements		-	136
<b>Balance</b> , end of year	\$	<b>24,000</b>	\$ 24,614



**Consolidated Statement of  
Changes in Financial Position**

(dollars in thousands)

For the year ended December 31	1998	(Note 19) 1997
<b>Operating Activities</b>		
Net loss for the year	\$ (20,340)	\$ (1,811)
Items not affecting cash		
- amortization (Schedule 2)	12,081	10,731
- gain on sale of capital assets	(1,140)	(872)
- unusual item (Note 8)	19,706	-
	10,307	8,048
Changes in non-cash working capital balances		
(Increase) decrease in accounts receivable	(2,522)	1,265
Increase in inventory	(2,162)	(120)
Increase in prepaid expenses	(238)	(46)
Increase (decrease) in accounts payable and accrued charges	2,172	(3,421)
(Decrease) increase in deferred revenue	(178)	219
	7,379	5,945
<b>Financing Activities</b>		
Proceeds from long term debt (Note 4)	13,845	-
Reduction of long term debt (Note 4)	(200)	-
Proceeds from Province of Ontario (Note 11)	-	12,347
	13,645	12,347
<b>Investing Activities</b>		
Investment in capital assets	(21,486)	(15,021)
Proceeds from sale of capital assets	1,649	2,472
Increase in other assets	(5,152)	(1,740)
	(24,989)	(14,289)
<b>(Increase) decrease in Bank Loans and Overdraft during the year</b>	<b>(3,965)</b>	<b>4,003</b>
<b>Bank Loans and Overdraft, beginning of year</b>	<b>(1,609)</b>	<b>(5,612)</b>
<b>Bank Loans and Overdraft, end of year</b>	<b>\$ (5,574)</b>	<b>\$ (1,609)</b>

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

**Consolidated Schedule  
of Investment in Capital Assets**

(dollars in thousands)

**Schedule 1**

	December 31		1998	(Note 19) 1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
<b>Rail Services</b>				
Roadway	\$ 149,240	\$ 60,997	\$ 88,243	\$ 93,269
Buildings	35,447	10,360	25,087	25,842
Equipment	62,014	32,115	29,899	47,566
Under construction	15,292	-	15,292	1,071
<b>O.N.Tel</b>				
Equipment	99,588	61,407	38,181	39,086
Buildings	3,458	1,350	2,108	2,160
Under construction	4,333	-	4,333	2,151
<b>Marine Services (Owen Sound)</b>				
Vessels	12,959	10,578	2,381	6,381
Land and buildings	126	44	82	84
Equipment	244	241	3	3
<b>Bus Services</b>				
Coaches	9,088	3,914	5,174	4,263
Under construction	151	-	151	151
<b>Marine Services (North Bay and Moosonee)</b>				
Vessels	385	253	132	142
Buildings	1	1	-	57
<b>Development</b>				
Land and buildings	8,017	2,035	5,982	6,247
	\$ 400,343	\$ 183,295	\$ 217,048	\$ 228,473



# Consolidated Schedule of Operating Revenues and Expenses

(dollars in thousands)

## Schedule 2

For the year ended December 31	1998	(Note 19) 1997
<b>Rail Services</b>		
Sales revenue	\$ 54,277	\$ 57,510
Government reimbursement (Note 6)	5,731	7,720
Operating revenue	60,008	65,230
Operating expense	60,576	67,488
Operating loss	(568)	(2,258)
Amortization	6,032	5,424
Gain on sale of capital assets	(218)	(286)
Interest expense	323	36
Net loss from operations	(6,705)	(7,432)
<b>O.N.Tel</b>		
Sales revenue (Note 7)	50,015	52,414
Operating expense	33,618	35,187
Operating income	16,397	17,227
Amortization	4,376	3,927
Loss on sale of capital assets	173	13
Net income from operations	11,848	13,287
<b>Bus Services</b>		
Sales revenue	8,923	9,010v
Operating expense	8,429	8,451
Operating income	494	559
Amortization	555	590
Gain on sale of capital assets	-	(328)
Net (loss) income from operations	(61)	297
<b>Marine Services (Owen Sound)</b>		
Sales revenue	5,421	4,556
Government reimbursement (Note 6)	890	890
Operating revenue	6,311	5,446
Operating expense	5,725	5,421
Operating income	586	25
Amortization	378	366
Net income (loss) from operations	208	(341)
<b>Marine Services (Pelee Island) (Note 18)</b>		
Sales revenue	3,701	3,444
Operating expense	3,401	3,144
Net income from operations	300	300

## Consolidated Schedule of Operating Revenues and Expenses

(dollars in thousands)

### Schedule 2 (continued)

For the year ended December 31	1998	(Note 19) 1997
<b>Marine Services (North Bay)</b>		
Sales revenue	\$ -	\$ -
Operating expense	-	3
Operating loss	-	(3)
Loss on sale of capital assets	-	132
Amortization	-	19
Net loss from operations	-	(154)
<b>Marine Services (Moosonee)</b>		
Sales revenue	101	118
Government reimbursement (Note 6)	50	50
Operating revenue	151	168
Operating expense	143	184
Net income (loss) from operations	8	(16)
<b>Air Service Contracts</b>		
Sales revenue	-	-
Operating expense	702	999
Net loss from operations	(702)	(999)
<b>Rental Properties</b>		
Sales revenue	390	420
Operating expense	215	266
Operating income	175	154
Amortization	203	127
Gain on sale of capital assets	(1,095)	(403)
Net income from operations	1,067	430
<b>Administration</b>		
Sales revenue	-	-
Operating expense	6,088	6,720
Operating loss	(6,088)	(6,720)
Amortization	537	278
Interest expense	49	-
Net loss from operations	(6,674)	(6,998)

**Consolidated Schedule of  
Operating Revenues and Expenses**

(dollars in thousands)

**Schedule 2 (continued)**

For the year ended December 31	1998	(Note 19) 1997
<b>Total Operations</b>		
Sales revenue	<b>122,828</b>	127,472
Government reimbursement (Note 6)	<b>6,671</b>	8,660
Operating revenues	<b>129,499</b>	136,132
Operating expenses	<b>118,897</b>	127,863
Operating income	<b>10,602</b>	8,269
Amortization	<b>12,081</b>	10,731
Interest expense	<b>372</b>	36
Gain on sale of capital assets	<b>(1,140)</b>	(872)
<b>Net Loss from Operations</b>	<b>\$ (711)</b>	<b>\$ (1,626)</b>



Summary of Significant  
Accounting Policies

For the year ended December 31, 1998

<b>Basis of Accounting</b>	These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N.Tel Inc., Star Transfer Limited, The Owen Sound Transportation Company Limited, Air-Dale Limited and Nipissing Central Railway Company.																
<b>Revenue Recognition</b>	Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Revenues from other sources are recognized when earned, with the exception of federal government reimbursements. Reimbursements, upon audit verification of yearly losses are recorded on a cash basis. Advance payments made prior to final determination of losses are recorded on an accrual basis. Telecommunications toll revenue adjustments are recognized when measurement is reasonable.																
<b>Inventory</b>	With the exception of used rail, all materials and supplies are valued at average cost. Used rail is shown at unamortized book value determined at the time of retirement.																
<b>Investment in Capital Assets and Amortization</b>	<p>Capital assets are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.</p> <p>The estimated service lives for principal categories of assets are as follows:</p> <table><tr><td>Roadway - main line and branches .....</td><td>20 to 50 years</td></tr><tr><td>Railway diesel locomotives .....</td><td>25 years</td></tr><tr><td>Railway cars .....</td><td>33 years</td></tr><tr><td>Marine vessels .....</td><td>20 to 30 years</td></tr><tr><td>Buildings .....</td><td>50 years</td></tr><tr><td>Telecommunications equipment .....</td><td>15 years</td></tr><tr><td>Vehicles .....</td><td>3 years</td></tr><tr><td>Coaches .....</td><td>12 years</td></tr></table>	Roadway - main line and branches .....	20 to 50 years	Railway diesel locomotives .....	25 years	Railway cars .....	33 years	Marine vessels .....	20 to 30 years	Buildings .....	50 years	Telecommunications equipment .....	15 years	Vehicles .....	3 years	Coaches .....	12 years
Roadway - main line and branches .....	20 to 50 years																
Railway diesel locomotives .....	25 years																
Railway cars .....	33 years																
Marine vessels .....	20 to 30 years																
Buildings .....	50 years																
Telecommunications equipment .....	15 years																
Vehicles .....	3 years																
Coaches .....	12 years																

Summary of Significant  
Accounting Policies (continued)

For the year ended December 31, 1998

Investment in Capital Assets  
and Amortization (continued)

The Province of Ontario reimburses the Commission for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to contributed surplus. Annual amortization on these capital assets is recorded as a reduction of contributed surplus.

Self-Insurance Fund

The self-insurance fund assets are stated at acquisition cost.

Income Taxes

As an agency of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Accounting Estimates

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

## Notes to Consolidated Financial Statements

(dollars in thousands)

For the year ended December 31, 1998

### 1. Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a \$100 premium paid by the Commission in addition to investment income earned on fund assets. Due to larger than anticipated disbursements from the fund in 1996 resulting from several rail derailments, the Commission approved an increase in the premium paid in 1997 to \$500. Fund assets are comprised of investments in federal and provincial government bonds.

Interest rates on the above mentioned bonds vary from 5.10% to 14.25% per annum. Maturity dates on these investments are staggered ranging from June 9, 1999 to October 16, 2006.

### 2. Operating Line of Credit

The Commission has a demand operating line of credit bearing interest at prime less 0.5%. The maximum draws that can be advanced on this operating line are \$8,000. Included in bank loans and overdrafts at year end are draws on the operating line of \$2,000 (1997 - \$Nil).

### 3. Deferred Pension Charge

The Commission is the trustee for its contributory pension plan which covers all permanent staff.

The net cost of pension benefits is actuarially determined on the basis of management's best estimates using the projected benefit method pro-rated over the service lives of the employees. The net cost of pension benefits includes the amortization over the remaining service lives of the plan members of the initial net pension surplus and the 1997 experience gain. Pension plan assets were valued at a market related value based on recognizing the difference between book and market values at each year end over a five year period.

The Commission's share of the net (recovery) cost of pension benefits earned by employees during the year was (\$3,097) (1997 - \$1,120). In 1998 the Commission funded the amount of \$2,123 (1997 - \$2,108). The accumulated excess of the funded amount over the net cost of benefits earned is recorded as a deferred pension charge on the balance sheet.

The actuarial valuation prepared for accounting purposes as at December 31, 1998 disclosed market value of plan assets of \$378,778 (1997 - \$365,456) and present value of accrued pension benefits of \$304,745 (1997 - \$298,910). This valuation assumed an expected rate of return on plan assets of 6-1/2 per cent and projected pay increases of 4-1/2 per cent.



## Notes to Consolidated Financial Statements

(dollars in thousands)

For the year ended December 31, 1998

### 4. Long-Term Debt

Long-term debt is comprised of the following:

	1998	1997
Loan from Province of Ontario, non-interest bearing with no specific terms of repayment.	\$ 35,208	\$ 35,208
Loan from Ontario Financing Authority, bearing interest at 5.64% per annum, blended monthly payments of \$43 for 10 years.	3,744	-
Loan from Ontario Financing Authority, bearing interest at 5.6% per annum, blended monthly payments of \$156 for 15 years beginning January 1, 2000.	<sup>(a)</sup> 9,900	-
	48,852	35,208
Less current portion	315	-
	\$ 48,537	\$ 35,208

- (a) The total approved amount of this loan is \$19,014 under the terms mentioned above. Construction advances of \$5,300 and \$4,600 were made on December 15, 1998 and December 31, 1998, respectively. Interest at a rate of 5.05% on the \$5,300 advance and 5.15% on the \$4,600 advance is due and payable prior to commencement of payments on the \$19,014 loan. Further advances will be made during construction up to the total amount of the loan. Interest on construction advances will be the Ontario Financing Authority's short term cost of borrowing plus .25%.

Payments required in the next five years are as follows:

1999	\$ 315
2000	1,169
2001	1,237
2002	1,308
2003	1,381

# Notes to Consolidated Financial Statements

(dollars in thousands)

For the year ended December 31, 1998

## 5. Retirement Incentive

In connection with changes to government reimbursement and as a response to the general economic climate, incentives to retire were extended to a number of the Commission's employees in 1996. A total of 167 employees accepted the offer at a cost of \$5,664. Total expense reflected at December 31, 1997 is \$225, this represents the underaccrual for settlement of the 1996 retirements and an additional four employees retired in 1997.

## 6. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry entered into a fixed price contract which defined the amount of compensation which the Province of Ontario provided for the year 1998. In 1995, the provincial government announced a plan to reduce reimbursements to the Commission. Reductions amounted to \$7,000 in 1996 and \$4,000 in 1997.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. Negotiations between the Commission and Transport Canada concluded in 1996. The amount of annual reimbursement has been fixed at \$2,500 for a five year period.

Details of Government Reimbursement are as follows:

	1998	1997
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	\$ 3,231	\$ 3,231
Marine Services (Moosonee)	50	50
Marine Services (Owen Sound)	890	890
	<b>4,171</b>	<b>4,171</b>
From National Transportation Agency:		
Adjustments from prior years	-	1,989
From Transport Canada:		
Current years operations	<b>2,500</b>	<b>2,500</b>
	<b>\$ 6,671</b>	<b>\$ 8,660</b>

**Notes to Consolidated  
Financial Statements**

(dollars in thousands)

For the year ended December 31, 1998

**7. O.N.Tel Revenue Agreements**

The Commission has a traffic agreement with Bell Canada that covers all long distance services that either originate within and terminate outside or originate outside and terminate within the Commission's service area. This agreement may be terminated by either party after giving 180 days notice. Bell Canada gave notice that they wished to terminate this agreement in 1997. Pending final negotiation of a new agreement, the terms and conditions of the old agreement are being continued on a monthly basis. During 1997 the Commission received and recognized \$3,417 from Bell Canada in revenue settlement adjustments for prior periods dating back to 1987.

**8. Unusual Items**

Write-down of ferry vessel Nindawayma	\$	3,311
Write-down of deferred land development costs		1,300
Write-down of railway passenger rolling stock		15,095
	\$	19,706

Steps taken to dispose of the ferry vessel Nindawayma in 1996 continued into 1998. It has become apparent that the net realizable value of this asset has fallen below carrying value. Accordingly in 1998, the remaining residual net book value of the asset has been written off.

The process of selling land held by the Commission in Timmins, Ontario began in 1998. It has become evident that the net realizable value of development costs associated with the land has fallen below its carrying value. The development costs are accordingly being written down by \$1,300.

In connection with the transfer of responsibility for reimbursement of the operating loss of the weekday passenger train service between North Bay and Toronto from the National Transportation Agency to Transport Canada, the carrying value of the passenger rolling stock (converted unilevel commuter cars) was examined. Management has determined that the net realizable value of these assets has fallen below their carrying value and accordingly, they have been written down. In determining the amount of the write-down, management considered both an independent valuation of these cars conducted during the year as well as negative cash flows produced by the passenger train service. (see Note 12)

**9. Regulatory Approval**

In order to secure new rail freight traffic, the Commission is participating in the funding of the regulatory approval process required to obtain a license to use the former Adams Mine as a solid waste disposal site. The costs are being shared between the Commission and two other companies. The amounts are being charged to operations in the year of payment. In 1997 the Commission's final commitment was paid.



For the year ended December 31, 1998

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**10. Air Service Contracts**

The Commission contracted for the provision of alternate transportation for some communities affected by the closure of the Air Services division (norOntair) until other arrangements could be made. This contractual arrangement extended into the second quarter of 1997. Upon completion of this contract, the Commission began the provision of funds directly to some of the affected communities in order that they may arrange alternate modes of transport. These payments may be found in Schedule 2 under the caption Air Service Contracts, and the payments which originally were expected to end in 1999 will now continue into 2000.

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**11. Contributions from the Province of Ontario**

Proceeds on disposition of \$12,347 from the sale of capital assets as a result of the closure of the Air Services division (norOntair) are being treated as an injection of surplus from the Province of Ontario. This approach has been taken because the Commission was reimbursed the cost of the assets by the Province of Ontario on their original purchase. The net book value of the assets was essentially Nil when offset by unamortized contributed surplus. The funds received upon sale of these capital assets are to be earmarked for the restructuring of operations, pursuit of new viable business opportunities and the recapitalization of equipment.

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**12. Contingencies**

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

A claim for \$3,000 has been submitted to the National Transportation Agency as partial reimbursement of the write-down of railway passenger rolling stock under the Railway Act. Management is of the opinion that the Commission has a valid claim and is entitled to payment. The likelihood of the success of the claim is not determinable at this time and as a result is not reflected in these financial statements.

## Notes to Consolidated Financial Statements

(dollars in thousands)

For the year ended December 31, 1998

### 13. Government Assistance

Under an agreement dated February 24, 1992 the Commission became eligible to receive \$4,250 in loan proceeds from the Northern Ontario Heritage Fund Corporation (the Heritage Fund), to assist with the purchases of certain specified capital assets. In accordance with the terms of the agreement the Commission must lease the assets to Algoma Central Railway for a nominal fee of \$1 per year. The loan is non interest bearing and may be repaid at a mutually agreed date between the Commission and the Heritage Fund by conveyance of the title of the assets to the Heritage Fund. As at December 31, 1998 a total of \$4,179 (1997 – \$4,151) has been received and has been recorded as a reduction of the cost of the capital assets.

### 14. Financial Instruments

The Commission's financial instruments consist of cash and term investments of the self insurance fund, accounts receivable, bank loans and overdrafts, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

A portion of the Commission's accounts payable will be settled in US dollars within two months of the end of the fiscal year.

### 15. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000.

If the Year 2000 Issue is not addressed by the Commission and its major customers, suppliers and other third party business associates, the impact on the Commission's operations and financial reporting may range from minor errors to significant systems failure which could affect the Commission's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Commission, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

# Notes to Consolidated Financial Statements

(dollars in thousands)

For the year ended December 31, 1998

## 16. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund \$185 (1997 - \$283) for financial and administrative support.

During 1998, the Rail Services division (of the Commission) charged the Telecommunications division (of the Commission) \$985 (1997 - \$985) for the use right-of-way over Rail Services land. This amount is disclosed as revenue to the Rail Services division and an expense to the Telecommunications division. Management believes that this transaction was consummated on terms no more or less favourable than those that could have been obtained from other third parties.

## 17. Long-Term Receivables

	1998	1997
Mortgage receivable, 7%, due April 1999, payments of interest only, due semi annually, secured by land.	\$ -	\$ 650
Long-term receivables - Amounts recoverable from parties as the result of operational events which will be resolved beyond the next fiscal period.	2,864	2,864
	<u>\$ 2,864</u>	<u>\$ 3,514</u>

## 18. Marine Services Revenue - Pelee Island

The contract for the provision of marine services to Pelee Island was subject to renewal December 31, 1998. The contract was renewed for a one year period from January 1, 1999 to December 31, 1999.

## 19. Comparative Figures

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.



**Statement of Employees  
Paid in Excess of \$100,000**

For the year ended December 31, 1998

Name	Position	Salary	Taxable Benefits
K J Wallace	President and C.E.O.	\$ 145,475	\$ 8,801
R G Leach	Vice President Rail Services	115,844	1,149
R S Hutton	Vice President O.N.Tel	113,672	1,171
S G Carmichael	Vice President Finance and Administration	113,672	1,171

*Prepared under the Public Sector Salary Disclosure Act, 1996*







 **Ontario Northland**



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